

## 2002

## Corporation Depreciation and Amortization

3885

Attach to Form 100 or Form 100W.

Corporation name

California corporation number

## Part I Depreciation

[illegible]

**2** Add the amounts in column (g) and column (h). The combined total of column (h) may not exceed \$2,000.

See instructions for line 1, column (h) ..... 2

**3** Total. Add the amounts on line 2, column (g) and column (h) ..... **3**

**4** Total depreciation claimed for federal purposes from federal Form 4562, line 22 ..... **4**

**5 Depreciation adjustment.** If line 4 is greater than line 3, enter the difference here and on Form 100 or Form 100W, Side 1, line 6.

If line 4 is less than line 3, enter the difference here and on Form 100 or Form 100W, Side 1, line 12. (If California depreciation amounts are used to determine net income before state adjustments on Form 100 or Form 100W, no adjustment is necessary.)

## Part II Amortization

[illegible]

**2** Total. Add the amounts in column (g) ..... **2**

**3** Total amortization claimed for federal purposes from federal Form 4562, line 44 ..... **3**

**4** Amortization adjustment. If line 3 is greater than line 2, enter the difference here and on Form 100 or Form 100W.

Side 1, line 6. If line 3 is less than line 2, enter the difference here and on Form 100 or Form 100W, Side 1, line 12 . . . . . **4**

## General Information

In general, California law conforms to the Internal Revenue Code (IRC) as of January 1, 2001. Therefore, California has conformed to the income tax changes made to the IRC by the federal Internal Revenue Service Restructuring and Reform Act of 1998 (Public Law 105-206), the Tax and Trade Relief Extension Act of 1998 (Public Law 105-277), Surface Transportation Revenue Act of 1998 (Public Law 105-178), the Ricky Ray Hemophilia Relief Fund Act of 1998 (Public Law 105-369), the Ticket to Work and Work Incentives Improvement Act of 1999 (Public Law 106-170), the Miscellaneous Trade and Technical Corrections Act of 1999 (Public Law 106-36), the FSC Repeal and Extraterritorial Income Exclusion Act of 2000 (Public Law 106-519), the Consolidated Appropriations Act of 2001 (Public Law 106-554), and to technical corrections made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16). However, there are continuing differences between California and Federal law. California has not

conformed to some of the law changes made by the Economic Growth and Tax Relief Reconciliation Act of 2001 (Public Law 107-16) or the federal Job Creation and Worker Assistance Act of 2002 (Public Law 107-147). **Note:** Fiscal year taxpayers are subject to California tax law as it conforms to federal law that is applicable for taxable years beginning prior to January 1, 2002.

California law has not conformed to federal law regarding the additional 30% first-year depreciation allowance for qualified property or the additional 30% first-year depreciation allowance for Qualified New York Liberty Zone property as added by the Job Creation and Worker Assistance Act of 2002 (Public Law 107-147).

For any taxable year beginning on or after January 1, 2000, California law does not conform to federal law regarding the temporary suspension of income limitations on percentage depletion for production from marginal wells. The percentage depletion deduction may not exceed 65% of the taxpayer's

taxable income and cannot exceed 100% of the net income derived from the oil or gas well property.

## A Purpose

Use this form to figure California depreciation and amortization for corporations, and for partnerships and limited liability companies (LLCs) classified as corporations only.

S corporations must use Schedule B (100S). Individuals must use form FTB 3885A, Depreciation and Amortization – Individuals. Fiduciaries and exempt trusts must use form FTB 3885F, Depreciation and Amortization – Fiduciaries. Partnerships must use form FTB 3885P, Depreciation and Amortization – Partnerships. LLCs classified as partnerships must use form FTB 3885L, Depreciation and Amortization – Limited Liability Companies.

Depreciation and amortization are deductions corporations claim for reasonable exhaustion, wear and tear, and normal obsolescence of property used in a trade or business or held for the production of income.

For purposes of this form, depreciation is used in connection with tangible property, while amortization is used for intangible assets.

**Note:** For amortizing the cost of certified pollution control facilities, use form FTB 3580, Application to Amortize Certified Pollution Control Facility.

Important differences between federal and California laws affect the calculation of depreciation and amortization. Some of the major differences are briefly described, as follows:

- California law has not conformed to the additional 30% first-year depreciation allowance for qualified property
- California law allows additional first-year depreciation under Revenue and Taxation Code (R&TC) Section 24356, rather than an election to expense the cost of the property as provided in IRC Section 179;
- California law has not conformed to federal statutes allowing accelerated depreciation for property on Indian Reservations;
- California law allows a useful life of five years, instead of ten years, for grapevines planted as replacements for vines subject to Phylloxera or Pierce's disease;
- California corporation tax law has not conformed to the federal special class life for gas station convenience stores and similar structures;
- California has not conformed to federal statutes allowing depreciation under Modified Accelerated Cost Recovery System (MACRS) for corporations, except to the extent such depreciation is passed through from a partnership or LLC classified as a partnership;
- California has adopted provisions of the federal Class Life Asset Depreciation Range System (ADR), which specifies a useful life for various types of property. However, California law does not allow the corporation to choose a depreciation period that varies from the specified asset guideline system.

B Depreciation Calculation Methods

Depreciation methods are defined in R&TC Sections 24349 through 24354. Depreciation calculation methods, described in R&TC Section 24349, are as follows:

**Straight-Line.** The straight-line method divides the cost or other basis of property, less its estimated salvage value, into equal amounts over the estimated useful life of the property. An asset may not be depreciated below a reasonable salvage value.

**Declining Balance.** Under this method, depreciation is greatest in the first year and smaller in each succeeding year. The property must have a useful life of at least three years. Salvage value is not taken into account in determining the basis of the property, but the property may not be depreciated below a reasonable salvage value.

The amount of depreciation for each year is subtracted from the basis of the property and a uniform rate of up to 200% of the straight-line rate is applied to the remaining balance.

For example, the annual depreciation allowances for property with an original basis of \$100,000 are:

Year	Remaining basis	Declining balance rate	Depreciation allowance
First	\$100,000	20%	\$20,000
Second	80,000	20%	16,000
Third	64,000	20%	12,800
Fourth	51,200	20%	10,240

**Sum-of-the-years-digits method.** This method may be used whenever the declining balance method is allowed. The depreciation deduction is figured by subtracting the salvage value from the cost of the property and multiplying the result by a fraction. The

numerator of the fraction is the number of years remaining in the useful life of the property. Therefore, the numerator changes each year as the life of the property decreases. The denominator of the fraction is the sum of the digits representing the years of useful life. The denominator remains constant every year.

**Other consistent methods.** Other depreciation methods may be used as long as the total accumulated depreciation at the end of any taxable year during the first 2/3 of the useful life of the property is not more than the amount that would have resulted from using the declining balance method.

C Period of Depreciation

Under CA Reg. 24349 (I), California conforms to the federal useful lives of property.

Use the following information as a guide to determine reasonable periods of useful life for purposes of calculating depreciation. Actual facts and circumstances will determine useful life. Note, however, that the figures listed below represent the normal periods of useful life for the types of property listed as shown in IRS Rev. Proc. 83-35.

- Office furniture, fixtures, machines, and equipment ..... 10 yrs.  
This category includes furniture and fixtures (that are not structural components of a building) and machines and equipment used in the preparation of paper or data.  
Examples include: desks; files; safes; typewriters, accounting, calculating, and data processing machines; communications equipment; and duplicating and copying equipment.
- Computers and peripheral equipment (printers, etc.) ..... 6 yrs.
- Transportation equipment and automobiles (including taxis) ..... 3 yrs.  
General-purpose trucks:  
Light (unloaded weight less than 13,000 lbs.) ..... 4 yrs.  
Heavy (unloaded weight 13,000 lbs. or more) ..... 6 yrs.
- Buildings  
This category includes the structural shell of a building and all of its integral parts that service normal heating, plumbing, air conditioning, fire prevention and power requirements, and equipment such as elevators and escalators.  
Type of building:  
Apartments ..... 40 yrs.  
Dwellings (including rental residences) ..... 45 yrs.  
Office buildings ..... 45 yrs.  
Warehouses ..... 60 yrs.

D Depreciation Methods to Use

Corporations may use the straight-line method for any depreciable property. Before using other methods, consider the kind of property, its useful life, whether it is new or used, and the date it was acquired. Use the following chart as a general guide to determine which method to use:

Property description	Maximum depreciation method
Real estate acquired 12/31/70 or earlier	
New (useful life 3 yrs. or more) ...	200% Declining balance
Used (useful life 3 yrs. or more) ...	150% Declining balance
Real estate acquired 1/1/71 or later	
Residential Rental:	
New ..... 200% Declining balance	
Used (useful life 20 yrs. or more) ..	125% Declining balance
Used (useful life less than 20 yrs.) .	Straight-line
Commercial and industrial:	
New (useful life 3 yrs. or more) ...	150% Declining balance*
Used ..... Straight-line	
Personal property	
New (useful life 3 yrs. or more) ...	200% Declining balance*
Used (useful life 3 yrs. or more) ...	150% Declining balance

\*Other depreciation methods may be used as long as the total accumulated depreciation at the end of any taxable year during the first 2/3 of the useful life of the property is not more than the amount that would have resulted from using the declining balance method.

The Guideline Class Life System of depreciation may be used for certain classes of assets placed in service before 1971.

The Class Life ADR System of depreciation may be used for designated classes of assets placed in service after 1970.

E Amortization

California conformed to the 1993 federal Revenue Reconciliation Act (Public Law 103-66) for the IRC Section 197 amortization of intangibles for taxable years beginning on or after January 1, 1994. Generally, assets that meet the definition under IRC Section 197 are amortized on a straight-line basis over 15 years. There may be differences in the federal and California amounts for intangible assets acquired in taxable years beginning prior to January 1, 1994. See R&TC Section 24355.5 for more information.

Amortization of the following assets is governed by California law:

Bond premiums	R&TC 24360 – 24363.5
Research expenditures	R&TC 24365
Reforestation expenses	R&TC 24372.5
Organizational expenditures	R&TC 24407 – 24409
Start-up expenses	R&TC 24414

Other intangible assets may be amortized if it is proved with reasonable accuracy that the asset has an ascertainable value that diminishes over time and has a limited useful life.

Specific Line Instructions

Line 1

Corporations may enter each asset separately or group assets into depreciation accounts. Figure the depreciation separately for each asset or group of assets. The basis for depreciation is the cost or other basis reduced by a reasonable salvage value (except when using the declining balance method), additional first-year depreciation (if it applies), and tax credits claimed on depreciable property (where specified). This may cause the California basis to be different from the federal basis.

If the Guideline Class Life System or Class Life ADR System is used, enter the amount, from a schedule showing the computation, on form FTB 3885, column (g), and identify as such.

Line 1, Column (h), Additional first-year depreciation

Corporations may deduct up to 20% of the cost of "qualifying property" in the year acquired in addition to the regular depreciation deduction. The maximum additional first-year depreciation deduction is \$2,000. Corporations must reduce the basis used for regular depreciation by the amount of additional first-year depreciation claimed.

"Qualifying property" is tangible personal property used in business and having a useful life of at least six years. Land, buildings, and structural components do not qualify. Property converted from personal use, acquired by gift, inheritance, or from related parties also does not qualify.

See R&TC Section 24356 and the applicable regulations for more information.

**Note:** An election may be made to expense up to 40% of the cost of property described in R&TC Sections 24356.6, 24356.7, and 24356.8. For more information, get form FTB 3809, Targeted Tax Area Deduction and Credit Summary; form FTB 3805Z, Enterprise Zone Deduction and Credit Summary; or form FTB 3807, Local Agency Military Base Recovery Area Deduction and Credit Summary.